

Arizona Department of Insurance

2011 Market Monitoring

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Businessowner' Insurance

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The Businessowner (“BOP”) policy is a multiple-line insurance policy for small and medium-sized businesses (e.g., retail businesses, etc.) that meets each insurer’s program specifications and qualifications. Insurers originally designed the BOP as an alternative to the commercial multi-peril policy (“CMP”). While BOP’s are easier to read and understand, their limits and coverage is generally less flexible than CMP’s.

I. Rate System:

Arizona’s “open competition” law, applicable to BOP, prohibits insurers from charging excessive, inadequate or unfairly discriminatory rates or rates that will have the effect of destroying competition or establishing a monopoly. By statute, a rate is not excessive if “a reasonable degree of price competition” (“RDPC”) exists at the consumer level. The law presumes a competitive market exists unless the Director, after a public hearing, determines that a RDPC does not exist in the market.

II. Market Monitoring Methodology:

To monitor the market, the Department relies upon insurers' rate filings and annual statements filed with the Department, insurers' responses to an annual Department survey, current trade press articles, statistical reports, and A.M. Best data.

III. Annual Statement Data:

Insurers combine their BOP and CMP experience for annual statement reporting purposes to the Department. See Table A. The BOP comprises about 30% of the reported CMP direct written premium (“DWP”). BOP 2010 data evidence that:

- Insurers’ 2010 DWP decreased about 5% over 2009.
- Insurers’ direct incurred loss ratio increased to 132% (includes loss adjustment expense) in 2010 compared to 67% in 2009.
- Business is concentrated in the Top 25 insurers.
- Insurance company groups (i.e., affiliated companies) dominate the entire market with Zurich Financial Services, Hartford Insurance Group, CNA Insurance Companies, St. Paul Travelers Companies, Nationwide Group and Liberty Mutual Insurance Group controlling 61.05% of the market. These six company groups have a total of 37 affiliates writing BOP business in Arizona.
- The number of insurers that have the authority to write BOP business exceeds the number actually

Table A: Commercial Multi Peril versus Businessowner's Historical Experience (Year Ending 12/31)

CY	Line	Written Premium	Earned Premiums	Losses Paid	Losses Incurred	Incurred Loss Ratio *
2010	CMP	\$487,051,027	\$495,768,114	\$375,701,305	\$619,616,965	125.98%
	BOP (28.65% of CMP)	\$139,524,805	\$138,611,034	\$104,329,090	\$154,914,631	111.76%
2009	CMP	\$504,881,829	\$519,111,473	\$254,820,751	\$179,647,306	34.61%
	BOP (29.14% of CMP)	\$147,101,343	\$146,667,789	\$83,979,909	\$80,547,137	54.92%
2008	CMP	\$555,879,290	\$565,859,546	\$274,807,296	\$246,929,532	43.64%
	BOP (28.74% of CMP)	\$159,743,454	\$157,370,915	\$75,268,041	\$100,742,067	64.02%
2007	CMP	\$577,984,619	\$577,214,782	\$234,662,461	\$238,904,916	41.38%
	BOP (28.94% of CMP)	\$167,255,732	\$159,678,175	\$67,176,390	\$67,419,452	42.22%
2006	CMP	\$578,623,018	\$559,163,269	\$224,347,051	\$221,975,147	39.70%
	BOP (28.45% of CMP)	\$164,594,783	\$155,207,165	\$68,015,748	\$77,443,692	49.90%
2005	CMP	\$535,697,008	\$523,757,496	\$228,718,487	\$254,321,205	48.55%
	BOP (29.87% of CMP)	\$159,995,084	\$158,295,122	\$60,863,252	\$80,657,314	50.95%
2004	CMP	\$502,718,663	\$483,855,767	\$195,732,857	\$224,221,512	46.34%
	BOP (30.90% of CMP)	\$155,349,934	\$147,324,199	\$44,545,775	\$59,937,121	40.68%

* Incurred Loss Ratios do not include loss adjustment expenses.

IV. Survey Responses:

In 2011, 76 active insurers responded to the ADOL's BOP survey and reported that they are seeking new policies while also retaining their existing business. Overall, insurers' responses regarding market conditions were positive.

- **The majority of surveyed insurers said that:**
 - Competition is high;
 - Coverage is available;
 - Groups play a major role;
 - Combined ratios have increased;
 - Pricing is important and levels are adequate;
 - It is not difficult to enter the market; and,
 - Reinsurance is readily available.

- **The majority said that their particular company:**
 - Adjusted rates in 2010;
 - Is actively seeking new business;
 - Considers the BOP, in Arizona and nationally, to be of major importance;
 - Has improved its Arizona BOP underwriting profitability;
 - Has not materially increased declinations, cancellations, or non-renewals in 2010; and,
 - Will maintain its current underwriting and risk-eligibility approach at least through 2011.

V. Major BOP Market Trends:

Trend # 1: Not all insurers possessing the authority to write BOP insurance are actually writing. Of the 300 insurers that reported some CMP activity in their annual statements for 2010, only 76 wrote BOP business. The remaining 224 insurers have the legal authority to write the BOP in Arizona, but for reasons of their own, have elected not to participate in the market. These "latent" insurers, although currently not actively seeking new business, potentially could immediately enter the market.

Trend # 2: Market concentration continues in the Top 25. The market share for the Top 25 decreased to 86%, down from 87% in 2009. The Top Five insurers have a 45.44% share of the market. Competition among these insurers is particularly intense. American Family Mutual IC is the leader followed by Hartford Casualty IC. Previously Hartford Casualty IC held the leading position for ten consecutive years. Truck Insurance Exchange, Mid-Century IC and State Farm Fire and Casualty Co. round out the Top Five.

The Top Five's 2010 market share and rank follow:

Table B

Rank	Company	2010 Market Share
1.	American Family Mutual IC	10.23%
2.	Hartford Casualty IC	9.93%
3.	Truck Insurance Exchange	8.64%
4.	Mid-Century IC	8.38%
5.	State Farm Fire and Casualty Co.	8.26%
	Total:	45.44%

Trend # 3: Policy count increased but average premium decreased. Policy counts increased 1% in 2010 while the average premium charged per policy decreased 6%. Although 46 insurers reported rate changes within the past year, the majority of the market (60%) believes that 2010 rates have not substantially changed in the past year. On a national level the BOP makes up 30% of the CMP line. The decrease in average premium may have contributed to a decrease in the overall net premiums written for the CMP line. Insurers appear reluctant to relinquish market share in this economy resulting in competitive pricing benefiting both consumers and businesses. A declining average premium size is an indication that the BOP market remains in the soft market stage of the underwriting cycle.

Trend # 4: Loss ratios and number of claims increased, but average claim payments decreased. The direct incurred loss ratio in 2010 was 132% compared to 67% in 2009 and the actual number of claims increased to 6,913 in 2010 compared to 4,940 in 2009. The 2010 hail storms may have contributed to the number of claims filed. However, claim payments averaged \$15,092 in 2010 compared to \$17,000 in 2009. The incurred loss ratio has increased; but, losses appear to be less severe as the average claim payment decreased. The increase in incurred losses and loss adjustment expense caused the spike in the 2010 incurred loss ratio.

Trend # 5: Price is important to insurers. Pricing is a major consideration for insurers and the majority believes pricing levels are adequate; however, the poor 2010 underwriting results could be reflected on future pricing levels.

In 2011, some insurers expressed concern that pricing is too low. In this highly competitive market, 100% of the responding insurers agreed that price is important.

Trend # 6: Insurers report improved BOP profitability. The Arizona combined ratio increased (165%, 2010; 102%, 2009; 115%, 2008); but, in 2011 insurers continue to project a favorable perception of BOP's underwriting profitability. While loss adjustment and underwriting expenses impact results, an insurer's losses primarily determine its profitability. Mergers and acquisitions within larger groups can distort the combined ratio changes. While the underwriting expense ratio is lower, the loss adjustment expense ratio and the incurred loss ratio have increased. The 2010 hail storms appear to be the main contributor to the deteriorating numbers. Insurers may re-underwrite and adjust rates to improve future profitability.

Trend # 7: It is not difficult to enter the BOP market. The majority of insurers stated that entry into the BOP market is not difficult. While the Top 25 insurers control of the market evidences high competition (86% market share), there are many latent insurers that could, at any time, begin writing this coverage.

Trend # 8: Reinsurance does not appear to be problematic. All insurers surveyed, responded that reinsurance is readily available.

VI. Conclusions:

The BOP is an important line for insurers who continue to prosper and increase their business in a competitive market. Mergers and acquisitions have increased group concentration in the market. Insurers can easily enter or exit this market. Consumers will find a broad range of insurers able to provide an insurance package geared to meet their specific needs at an affordable price. The market is experiencing a high degree of competition, but while pricing levels are perceived to be adequate, loss ratios are increasing. Insurers continue to look for new ways to market this product line; but also reduce losses while maintaining reasonable pricing levels.